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Central Intelligence Agency

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Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

26 JAN 1984

MEMORANDUM FOR: David Wigg
National Security Council
Old Executive Office Building

FROM : [redacted] 25X1
Chief, International Finance Branch
Office of Global Issues

SUBJECT : LDC Debt Crisis and Financial Situation in Six Key Debtor LDCs. [redacted] 25X1

Attached is the material you requested for inclusion in the briefing book for former presidents. It contains our assessment of the current LDC debt crisis and financial situations in six key LDC debtors. If you have any questions, please feel free to call [redacted] 25X1

[redacted] 25X1

Attachment:

The LDC Debt Crisis: An Overview,
GIM 84-10020, Jan 1984 [redacted] 25X1

GIM 84-10020

[redacted] 25X1

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[redacted] 25X1

SUBJECT: The LDC Debt Crisis: An Overview [redacted] 25X1

OGI/ECD/IF/[redacted]/25Jan84 25X1

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The LDC Debt Crisis: An Overview [redacted] 25X1

Summary

During the past year and a half, rescue packages coordinated by the IMF have forestalled default by debt-troubled LDCs and have averted a major disruption of the international financial community. The IMF, bankers, industrialized country and LDC debtor governments are currently negotiating 1984 debt relief packages. Again the strategy depends heavily on the cooperation of all players and confidence that the LDCs' ability to service the debt is improving. [redacted] 25X1

Interest rates, bankers fees, and IMF conditionality are the major issues in the current negotiations. An increasing number of debtor countries are seeking easier terms an new and restructured loans from banks. The IMF must set revised economic targets, and it risks losing the cooperation of debtors if they judge IMF demands as too harsh and likely to spur unrest. [redacted] 25X1

While most observers believe that 1984 LDC financing packages will be completed, longer-term and more difficult aspects of the debt crisis remain, including changes in LDC development policies and ensuring world economic recovery. For some debtors, only a fundamental restructuring of domestic markets can ensure long-term growth and financial viability, but such a restructuring will involve difficult social and political decisions. For their part, the industrialized countries have a responsibility to resist strong protectionist sentiment and encourage LDC export expansion. [redacted] 25X1

Among individual debtor situations, Brazil and Mexico are likely to complete their 1984 packages during the next month, [redacted] Without 25X1 an IMF arrangement in place, the financial situations of Argentina, the Philippines and Nigeria are less certain. For Buenos Aires, seasonal foreign grain sales and the willingness of creditors to cooperate at least initially with the new government are likely to temporarily ease difficulties. According to the Embassy in Manila the Marcos government is counting on the United States and Japan to provide bridge financing until an impasse with the IMF over devaluation can be resolved. The new Nigerian government must clear up some $5 billion in unpaid trade bills before the IMF or bankers will consider new lending this year. In Venezuela's case, [redacted] 25X1 25X1 commercial banks probably will refinance the debt without an IMF program. As a result of tight exchange controls and import restraints, foreign reserves have increased to about $11 billion, a factor providing Caracas some leverage in working unilaterally with the banks. [redacted] 25X1

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January 1984

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[redacted] [redacted]

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The LDC Debt Crisis: An Overview

During the past year and a half, rescue packages coordinated by the IMF have forestalled default by debt-troubled LDCs and have averted a major disruption of the international financial community. These packages have included debt restructuring, new commercial bank and IMF lending, and official bridging loans and export credits. In return debtor countries have agreed to undertake stringent economic adjustment measures. [redacted] 25X1

Creditors and debtors are negotiating 1984 debt relief packages. Again the strategy depends heavily on the cooperation of all players and confidence that the LDCs' ability to service the debt is improving. Currently, confidence is bolstered by OECD economic recovery, improved LDC export prospects, and lower or at least stable interest rates. An expectation that domestic political opposition to austerity measures will remain manageable is also an integral part of maintaining banker cooperation. [redacted] 25X1

Interest rates, banker fees, and IMF conditionality are the major issues in the current negotiations. An increasing number of debtor countries are seeking easier terms on new and restructured loans from banks, including longer grace periods and lower interest spreads. According to public statements by Brazil's former Central Bank President, some LDC officials perceive themselves to be in a stronger negotiating position this year following recent public statements by the IMF Managing Director and US Federal Reserve Chairman calling for lower bank fees. Still, heavily exposed banks probably will resist a substantial reduction in interest 25X1 spreads charged to countries that have not demonstrated progress in improving their external positions. Moreover, [redacted] bankers also worry that concessions granted to one country may lead other debtors to demand similar relief. [redacted] 25X1

For its part, the IMF must decide how stringent revised economic targets should be and how rigidly they should be enforced. On the one hand, the Fund risks losing the cooperation of debtors if they judge IMF demands as too harsh and likely to spur social and political unrest. On the other hand, creditors are looking to the Fund to oversee needed reforms before they will disburse new capital. Debtors are publicly questioning the efficacy of current IMF prescriptions, which have caused more inflation, unemployment, and reductions in living standards than had been expected, and they are likely to demand more lenient programs in the months ahead. [redacted] 25X1

While most observers are optimistic that 1984 LDC financing packages will be completed, longer-term and more difficult aspects of the debt crisis remain, including needed changes in LDC development policies and ensuring world economic recovery. In some debtor countries, present development policies have created a gross misallocation of resources which has sustained large inefficient public sector enterprises and bureaucracies. For these debtors, only a fundamental restructuring of the domestic markets can ensure long-term growth and financial viability, but such a restructuring will involve very difficult social and political decisions. For their part, the industrialized countries have a responsibility to resist strong protectionist sentiment and encourage LDC export expansion. Their monetary and fiscal policies will also be an important ingredient in sustaining the world economic recovery essential to LDC debt-servicing capabilities. [redacted] 25X1

[redacted] 25X1

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Country Outlooks

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Mexico

President Miguel de la Madrid's tough austerity measures have eased considerably the economic crisis he inherited last year. By complying with an IMF stabilization program, Mexico obtained over $6 billion in IMF and commercial bank financing last year. In addition, about $23 billion in public sector debt owed to commercial banks in 1983-84 was restructured over eight years. Mexico's bank advisory committee has just approved the government's request for $3.8 billion in new commercial bank credit with substantially more attractive terms than last year's $5 billion commercial loan. Mexico also is likely to obtain $2.5 billion in official trade credits this year. While the new commercial bank credits are expected to be ratified, final agreement may slip beyond the 27 January target date [redacted]. The government, 25X1 however, should not experience any interim financing gaps, because it has ample funds from last year's $5 billion increase in net foreign reserves and also has available undisbursed funds from last year's commercial loan. Mexico's 1984 IMF program is expected to be formally approved in mid-February. [redacted] 25X1

President de la Madrid will have to hold the economy on a tight leash during the next two years if progress on inflation, foreign exchange-rate stability, and restrained expansion of the debt burden is to continue. His task will not be easy because under any policy option, Mexicans face continued high levels of unemployment and depressed levels of personal consumption over the next couple of years. [redacted] 25X1

Economic management problems are likely to mount as the clear justification for austerity fades, political pressures for noticeable improvement in domestic economic conditions intensify, and the private sector financial difficulties continue. Because well-organized interest groups have a hearing at the highest level in Mexico's political system, the government probably will face growing pressures for higher subsidies, generous wage increases, and a return to an overvalued exchange rate. Still, President de la Madrid should remain in control because of early compromises with organized labor leaders and general acceptance by the business community of the need for austerity. [redacted] 25X1

Brazil

Brazil is currently trying to line up an $18.1 billion financing package for 1984 which includes a) $6.5 billion in new bank credit, b) $5.3 billion in bank refinancing of 1984 debt maturities, c) $3.8 billion in official rescheduling of 1983-84 debt maturities, and d) $2.5 billion in export credits from industrial countries. [redacted] 25X1 25X1 this package, as well as close to $16 billion in interbank deposits and short-term trade credits, is slated to be completed by the end of January, although difficulties in lining up small commitments remain. In return Brazil has agreed to new performance criteria under its 1983-85 IMF program which will require more restrictive fiscal, monetary, and wage policies than undertaken last year. Disbursement of new bank and IMF credit again will be contingent upon meeting quarterly economic objectives. Last year noncompliance delayed new money disbursements and led to the buildup of interest and other payments arrearages. [redacted] 25X1

We foresee continuing difficulties in implementing this year's program. Press reports indicate that Brazil's austerity efforts have met with a rising tide of protest among nearly all sectors of society and the political opposition movement is becoming a significant force. The Figueiredo government is increasingly obliged under the ongoing political liberalization to heed public opinion and share decisionmaking with Congress. While Brasilia will strive to keep the program on track and maintain workable relations with foreign creditors, it probably will be hard pressed to withstand domestic pressures for modifications to these policies. [redacted] 25X1

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Although the austerity program required by the IMF will debilitate economic activity through at least next year, the economy would plummet even further if new bank and IMF disbursements were withheld. The government may have to risk its working relations with the IMF and bankers, however, if domestic disorder spreads and Brasilia abandons the program or declares a debt moratorium in order to deflect public resentment and shore up the government's legitimacy. [redacted] 25X1

Venezuela

President-elect Jamie Lusinchi has stated publicly that his number one priority after taking office on 2 February is to reschedule Venezuela's \$16.4 billion of public sector debt due in 1983-84. Caracas declared a moratorium on principal repayments—including short-term obligations—last March and requested a refinancing. A bank advisory committee had insisted that a refinancing could not occur until an IMF stabilization program was in place. Former President Herrera was unwilling to submit to IMF austerity measures in an election year, and negotiations stalled. The new government is also opposed to an IMF agreement. [redacted] 25X1

[redacted] commercial 25X1 banks probably will reschedule the debt without an IMF program, provided Caracas clears up over \$800 million in arrearages on both public and private sector debt and undertakes a viable economic program that can keep interest payments current. Lusinchi probably will be able to meet these conditions, because Venezuela's balance-of-payments position has improved as a result of tight exchange controls and import restraints; foreign reserves have increased to about \$11 billion, [redacted] a factor 25X1 providing Caracas some leverage in working unilaterally with the banks. [redacted] 25X1

Set against these relatively favorable developments on the international financial front is the probability that Caracas will face domestic difficulties. Meeting bankers' requirements for domestic economic improvements likely will require basic policy adjustments — cuts in costly subsidies, a leaner public sector, devalued exchange rates, and removal of price controls — that will make it difficult for Lusinchi to fulfill campaign promises and high expectations from both the rural and labor sectors, the backbone of his support. Moreover, if the debt refinancing agreement does not go through, Caracas may be forced to accede to even more austere reforms advocated by the IMF. [redacted] 25X1

Argentina

Although the Alfonsin government has stated publicly its willingness to refinance 1982-83 debt arrearages and maturities due in 1984 and to negotiate a new IMF program, it is likely to be several months before any agreements with lenders can be reached. At recent banker meetings in New York, Economy Minister Grinspun proposed that banks disburse the remaining \$1 billion of a \$1.5 billion medium-term loan arranged last year, even though disbursements ceased because of noncompliance with the 1983 IMF program. Buenos Aires would return the entire disbursement plus some of its own reserves to cover both a scheduled \$350 million commercial bridge loan due this month and to bring interest arrearages current through the end of 1983. (Buenos Aires instituted a de facto payments moratorium in late 1983 and accumulated some \$2.5 billion in arrears by yearend.) [redacted] bankers, however, are 25X1 reluctant to make any disbursement without a time-consuming revision of IMF performance targets. Grinspun told bankers he expects to complete a new IMF arrangement by May provided the program allows for some stimulation of the economy. [redacted] 25X1

[redacted] 25X1

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Seasonal foreign grain sales and the willingness of creditors to cooperate at least initially with the new government are likely to temporarily ease Argentina's payments difficulties. A major confrontation with lenders could arise in mid-to-late 1984, however, when a resurgence of inflation and larger government deficits spurred by the government's planned demand stimulation policies, including social welfare programs and subsidized interest rates, is expected. IMF disbursements under any new program would probably cease as would any new commercial credits tied to the IMF arrangement. In addition, Grinspun is an unproven debt negotiator, and [redacted] could provoke an impasse with the international financial community. [redacted] 25X6 25X1

Philippines

Although it has been more than three months since the government announced a 90-day standstill on principal repayments to commercial banks and initiated talks with the IMF on a new $650 million standby program, the Philippines' financial situation remains unsettled. According to Embassy reporting, President Marcos, who is concerned about the political impact of further currency devaluation before the National Assembly elections in May, is resisting the IMF's demands for a floating exchange rate. Efforts to secure new bank loans and reschedulings with private and official creditors are stalled pending the results of the Fund's negotiations. [redacted] 25X1

According to the Embassy, the government is counting on the United States and Japan to provide bridge financing until a proposed $1.6 billion new bank facility can be signed. Official donors, however, will require the collateral of an IMF arrangement. The longer the financing stalemate continues, the more serious will be the impact on the economy, which is already experiencing severe contraction due to a cutback in trade financing. [redacted] 25X1

The ability of the Marcos government to weather its financial troubles will depend largely on Marcos's ability to ease the international financial community's fears about political instability. Marcos probably has the power to accomplish this by moving ahead on the Aquino investigation and making political reforms aimed at ensuring fair elections in May that political opponents are demanding. Nevertheless, the near certainty of further devaluations and other austerity measures will complicate Marcos's difficulties by adding to the grievances of labor, the middle class, and the business community. Organized protests prompted by economic problems will continue to add to international perceptions of serious political instability, and Manila will have great difficulty breaking this circle of events. [redacted] 25X1

Nigeria

Major General Buhari's new military government in Lagos faces an extremely difficult economic position. [redacted] foreign official assets — at less than $1 billion — cover only 2 months' imports; some $6.5 billion in unpaid trade bills must be refinanced before the IMF or bankers will consider new lending this year; Nigeria's domestic economy is in most severe economic recession since the 1967-70 civil war, with last year's economic output roughly 20 percent below that of 1981; and import cuts have affected machinery and industrial inputs, forced many factories to close, and boosted urban unemployment to near 30 percent of the urban labor force. [redacted] 25X1 25X1

[redacted] Buhari's pledge to honor "genuine" debt obligations and to pursue talks with the IMF, World Bank, and foreign creditors is being viewed cautiously but optimistically by commercial creditors. Creditors were reassured on 3 January when Lagos made the first principal repayment on $2 billion of trade credits refinanced during 1983, and again last week when repayments due on a 1978 loan were received. The new government did, 25X1

[redacted] 25X1

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however, postpone talks with the IMF scheduled for 10 January, to allow time for revision of the former administration's budget and to devise a new strategy for renegotiating some of the terms reached with the Shagari government, according to the Embassy. Devaluation and rescheduling of arrearages have been major sticking points in the IMF talks which began last summer. [redacted] 25X1

Some [redacted] have voiced doubts about Buhari's appreciation of the depth of Nigeria's 25X1 financial difficulties and his ability to formulate a strategy to deal with the situation. Buhari has promised quick improvements in living standards, and he will want to reach an accommodation with the IMF and creditors which will permit expanded imports. On the other hand, negotiations over IMF austerity conditions could be difficult and protracted, as Buhari will need to take an even tougher stance in negotiating performance criteria in order to keep his promises to the people. As the regime becomes increasingly aware of its inability to 25X1 produce a rapid recovery, it could attempt to make the West and the international financial community scapegoats. Continued economic stagnation is likely to erode public support for the new government as well as weaken the military's cohesion and spawn coup plotting. [redacted]

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Tabular Material

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Table 1

LDC and European Countries Debt Reschedulings

	Number of Reschedulings	Number of Countries	Amount Rescheduled (billion US$)
1975	2	2	0.5
1976	2	2	0.5
1977	4	3	0.4
1978	6	4	2.2
1979	8	6	6.2
1980	12	12	5.0
1981	15	14	5.0
1982	16	12	10.1
1983	36	25	54.3

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Table 2

1983 LDC and East European Debt Restructurings

	Month	Amount Restructured (million US$)	Maturity (years)	Grace Period (years)	Interest Rate (percentage points above Libor)	New Money Commitments* (million US$)
Private Restructurings						
Argentina	November	5,500	5.0	3.0	—	1,500
Brazil	February	4,800	8.0	2.5	2.125	4,400
Chile	July	1,300	7.0	4.0	2.125	1,300
Costa Rica	September	615	8.0	4.0	2.250	225
Cuba	December	130	7.0	3.0	2.250	0
Dominican Republic	September	568	5.0	1.0	2.250	0
Ecuador	October	1,210	6.0	1.0	2.250	431
Malawi	March	57	6.5	3.0	1.875	0
Mexico	Aug/Sept/Oct	22,824	8.0	4.0	1.875	5,000
Nigeria	July	1,350	3.0	5.5	1.500	0
	September	480	2.8	3.5	1.500	0
Panama	September	185	6.0	3.0	2.250	93
Peru	July	380	8.0	3.0	2.250	450
Poland	October	1,400	10.0	5.0	1.750	0
Romania	June	601	6.5	3.5	1.750	0
Togo	October	84	7.3	0.0	2.000	0
Uruguay	July	629	6.0	2.0	2.250	240
Yugoslavia	September	1,400	6.0	3.0	1.750	600
Zambia	October	67	7.0	3.0	2.250	0
Official Restructurings						
Brazil	November	3,800	9.0	5.0		
Central African Republic	July	13	9.5	5.0		
Costa Rica	January	200	8.3	3.8		
Cuba	March	413	8.5	3.5		
Ecuador	July	200	7.5	3.0		
Liberia	December	22	10.0	5.0		
Malawi	October	30	8.0	3.5		
Mexico	June	2,000	5.5	3.0		
Morocco	October	600	8.0	4.0		
Niger	November	27	10.0	5.0		
Peru	July	1,044	7.5	3.0		
Romania	May	148	6.0	3.0		
Senegal	December	8	9.0	4.0		
Sudan	February	536	15.0	5.5		
Togo	April	300	9.5	5.0		
Zaire	December	1,000	11.0	5.0		
Zambia	May	375	9.5	5.0		

* Funds committed by banks that are associated with the restructuring as part of a financial package.
Source: Embassy, and press reports.

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Table 3

Selected IMF Standby and Extended Arrangements, as of December 1983[(a)]

(Million US$)

Country	Date of Arrangement	Expiration Date	Amount of Agreement	Amount Available 1984	Comments
Standby Arrangements					
Argentina	Jan 1983	Apr 1984	1,650	1,000*	Argentina fell out of compliance in August 1983. Currently negotiating for a new loan.
Barbados	Oct 1982	May 1984	35	10	
Central African Rep.	Apr 1983	Apr 1984	20	10	
Chile	Jan 1983	Jan 1985	550	230	
Ecuador	Jul 1983	Jul 1984	173	85	
Ghana	Aug 1983	Aug 1984	262	180	
Guatemala	Aug 1983	Dec 1984	126	100	
Hungary	Dec 1982	Jan 1984	523	Fully drawn	Hungary requested a one year, $450 million standby program,to be considered by the Fund in January.
Kenya	Mar 1983	Sep 1984	194	110	
Korea, South	Jul 1983	Mar 1985	633	400	
Liberia	Sep 1983	Sep 1984	61	40	
Mauritius	May 1983	Aug 1984	54	40	
Morocco	Sep 1983	Mar 1985	330	200	
Panama	Jun 1983	Dec 1984	165	100	
Philippines	Feb 1983	Feb 1984	347	250*	The IMF found the Philippines out of compliance and suspended disbursements in Sept 1983. Manila is negotiating a new 18-month, $650 million standby for early 1984.
Romania	Jun 1981	Jun 1984	1,213	515*	In March 1983, the IMF blocked release of $190 million Bucharest was scheduled to draw in second half 1983. Bucharest will probably allow the current agreement to expire without further drawdown before a new agreement covering 1984-85 is signed.
Senegal	Sep 1983	Sep 1984	69	45	
Solomon Islands	Jun 1983	Jun 1984	2	1	
Somalia	Jul 1983	Jan 1984	66	Fully drawn	
Sri Lanka	Sep 1983	Jul 1984	110	65	
Sudan	Feb 1983	Feb 1984	187	25	Negotiations underway for 1984 program.
Togo	Mar 1983	Apr 1984	24	8	
Turkey	Jun 1983	Jun 1984	248	150	
Uganda	Sep 1983	Sep 1984	105	60	
Uruguay	Apr 1983	Apr 1985	416	215	
Western Samoa	Jun 1983	Jun 1984	4	1	
Zambia	Apr 1983	Apr 1984	234	130	
Zimbabwe	Mar 1983	Sep 1984	333	220	
Extended Fund Facility Arrangements					
Brazil	Feb 1983	Feb 1986	4,663	1,500	Suspended disbursements of May and August were made in Noven
Dominica	Feb 1981	Feb 1984	9	1	
Dominican Republic	Jan 1983	Jan 1986	408	130	
Grenada	Aug 1983	Aug 1986	15	6	Disbursements were suspended in late 1983.
India	Nov 1981	Nov 1984	1,980	1,500	India is not expected to draw full amount available
Ivory Coast	Feb 1981	Feb 1984	533	35	
Jamaica	Apr 1981	Apr 1984	157	80*	Jamaica has abandoned its EFF and is negotiating a standby loan for $180 million.
Malawi	Sep 1983	Sep 1986	110	30	
Mexico	Jan 1983	Dec 1985	3,752	1,600	
Peru	Jun 1982	Jun 1985	715	350*	Peru is in a noncompliance situation and is negotiating a new IMF program.

* Access to these funds is currently suspended because of noncompliance.
(a) Countries with Fund agreements which expired in December include: Costa Rica, Honduras, South Africa, Thailand, and Yugoslavia.

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Table 4

1984 DEBT RESCHEDULINGS

o = official
c = commercial

	In Process	Probable	Possible
Africa/Middle East	Ivory Coast(o,c) Liberia(c) Madagascar(o,c) Morocco(c) Nigeria(c) Senegal(c) Zambia(c)	Angola(o,c) Egypt(o,c) Ghana(o,c) Guinea Bissau(o,c) Somalia(o) Sudan(o) Upper Volta(o)	Mauritania(o,c) Nigeria(o)
Asia	Philippines(o,c)		
Latin America	Argentina(c) Bolivia(c) Brazil(c) Chile(c) Dominican Republic(o) Ecuador(c) Guyana(o) Honduras(c) Jamaica(c) Mexico(c) Nicaragua(c) Peru(c) Venezuela(c)	Argentina(o) Cuba(o c)	Colombia(c) Guatemala(c) Paraguay(c) Hungary(c)
Eastern Europe	Poland(o,c) Yugoslavia(o,c)		Hungary(c)

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Table 5

Major Debtors: 1984 Bank Reschedulings

(Billion US$)

Country	Amount to be Rescheduled	Related New Money
Argentina	21.0	2.0
Brazil	5.3	6.5
Chile	2.1	1.0
Ecuador	0.6	0.5
Ivory Coast	0.8	0.1
Morocco	1.0	--
Nigeria	5.0	--
Peru	0.3	0.5
Philippines	9.5	1.7
Poland	1.5	0.2
Venezuela	16.4	--
Yugoslavia	1.0	0.2

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